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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 A.M. EST
FRIDAY, OCTOBER 19, 1979

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STATEMENT OF
HENRY ESCHWEGE, DIRECTOR,
COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION
BEFORE THE SUBCOMMITTEE ON CONSERVATION AND CREDIT
OF THE
COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ON
[FARMERS HOME ADMINISTRATION'S EMERGENCY LOAN PROGRAM
FOR PRODUCTION LOSSES]

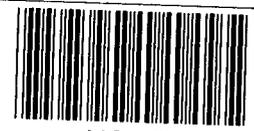
MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

WE ARE HERE AT YOUR REQUEST TO DISCUSS THE RESULTS OF
OUR RECENT REVIEW WHICH INCLUDED AN EXAMINATION OF THE ~~FARMERS
HOME ADMINISTRATION'S (FmHA'S) EMERGENCY LOAN PROGRAM FOR
PRODUCTION LOSSES.~~

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LATE LAST YEAR, THE CHAIRMAN AND THE RANKING MINORITY
MEMBER OF THE SENATE COMMITTEE ON THE BUDGET REQUESTED THAT
WE STUDY THE SMALL BUSINESS ADMINISTRATION'S (SBA'S) AND FmHA'S
DISASTER ASSISTANCE LOAN PROGRAM OPERATIONS IN FISCAL YEAR 1978.
THEIR REQUEST WAS PROMPTED BY THE LARGE INCREASE IN LOAN VOLUME
IN 1978 WHICH CREATED BUDGET PROBLEMS AND RAISED QUESTIONS
ABOUT THE APPROPRIATENESS OF THE CURRENT DISASTER LOAN PROGRAMS.
SBA'S DISASTER ASSISTANCE LOAN VOLUME INCREASED FROM \$200 MILLION
IN FISCAL YEAR 1977 TO \$2.5 BILLION IN FISCAL YEAR 1978. FmHA'S
DISASTER ASSISTANCE LOANS INCREASED FROM \$1.2 BILLION IN FISCAL
YEAR 1977 TO \$3.4 BILLION IN FISCAL YEAR 1978. OUR REPORT

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ENTITLED, "FARMERS HOME ADMINISTRATION AND SMALL BUSINESS ADMINISTRATION NATURAL DISASTER LOAN PROGRAMS: BUDGET IMPLICATIONS AND BENEFICIARIES," (CED-79-111) WAS ISSUED TO THE COMMITTEE ON AUGUST 6, 1979.

THE REPORT NOTED SEVERAL WEAKNESSES AND MADE RECOMMENDATIONS ON BOTH THE FmHA AND SBA DISASTER LOAN PROGRAMS. CURRENTLY, THE CONFERENCE COMMITTEE DELIBERATING ON S. 918 IS CONSIDERING OUR RECOMMENDATIONS DIRECTED TOWARD THE SBA PROGRAM. MY COMMENTS THIS MORNING WILL ADDRESS THAT PORTION OF OUR REPORT DEALING WITH THE PROBLEMS DISCLOSED AND IMPROVEMENTS NEEDED IN THE FmHA DISASTER ASSISTANCE LOAN PROGRAM FOR PRODUCTION LOSSES DUE TO NATURAL DISASTERS.

BACKGROUND

FIRST LET ME PROVIDE SOME BACKGROUND INFORMATION ON THE PRODUCTION LOSS LOAN PROGRAM.

FmHA PRODUCTION LOSS LOANS ARE MADE TO FARMERS, RANCHERS, AND AQUACULTURE OPERATORS WHO HAVE SUFFERED A SEVERE CROP LOSS AS A RESULT OF A NATURAL DISASTER. THESE LOANS ARE INTENDED TO RESTORE PRODUCTION IN AREAS DESIGNATED AS DISASTERS BY THE PRESIDENT OR THE SECRETARY OF AGRICULTURE.

DURING FISCAL YEARS 1977 AND 1978, FmHA MADE PRODUCTION LOSS LOANS TOTALING ABOUT \$480 MILLION AND \$1.4 BILLION, RESPECTIVELY. IN 1979, LOANS TOTALING \$750 MILLION WERE MADE AS OF JULY 31. EACH OF THESE LOANS WAS MADE AT SUBSIDIZED INTEREST RATES, WITH THE RATES TO THE BORROWER RANGING FROM 3 TO 5 PERCENT, WHILE FmHA'S COST OF BORROWING WAS MUCH HIGHER--

8.3 PERCENT. CURRENTLY, PRODUCTION LOSS LOANS ARE MADE AT 5 PERCENT AND THE COST OF BORROWING IS 9.96 PERCENT. CLEARLY THE LARGE AMOUNT OF LOAN VOLUME AND THE HIGH LEVEL OF THE FEDERAL SUBSIDY SUGGESTS THE NEED FOR CLOSE MONITORING.

RESULTS OF REVIEW

OUR REVIEW WAS PRIMARILY DIRECTED TOWARDS ANALYZING FISCAL YEAR 1978 PRODUCTION LOSS LOAN FILES IN FIVE STATES WITH HIGH LOAN ACTIVITY. IN EACH STATE, WE SYSTEMATICALLY SAMPLED LOAN FILES TO DETERMINE (1) THE FINANCIAL STATUS OF THE BORROWERS, (2) THE AVERAGE LOAN SIZE AND TERM, (3) HOW THE LOAN PROCEEDS WERE USED, AND (4) THE EXTENT TO WHICH THE BORROWERS COULD HAVE SECURED CREDIT ELSEWHERE. IN TOTAL, WE EXAMINED 260 LOAN FILES OUT OF A UNIVERSE OF ABOUT 22,000 IN THE 5 STATES. WHILE THE SAMPLE CANNOT BE PROJECTED TO THE UNIVERSE, WE FOUND NO EVIDENCE OF THESE LOAN FILES BEING ATYPICAL.

OUR ANALYSIS OF THESE FILES SHOWED THAT THE AVERAGE BORROWER OF AN FMHA PRODUCTION LOSS LOAN HAD A NET WORTH OF \$180,000, A GROSS ANNUAL INCOME OF \$100,000, AND A FARM OF ABOUT 750 ACRES. THE AVERAGE LOAN WAS ABOUT \$55,000 AND WAS REPAYABLE OVER AN 8 YEAR PERIOD.

BASED ON OUR REVIEW, WE CONCLUDED THAT THERE IS LITTLE OR NO ASSURANCE THAT THE LOANS ARE USED FOR DISASTER-RELATED PURPOSES, PARTICULARLY BY THE WEALTHIER BORROWERS. WE ALSO CONFIRMED THAT TWO PROBLEMS THAT WE HAD IDENTIFIED IN AN

EARLIER REPORT ON THE PRODUCTION LOSS LOAN PROGRAM 1/ STILL EXIST. FIRST, FmHA'S MINIMUM LOSS ELIGIBILITY CRITERIA IS INEQUITABLE TO FARMERS, AND SECOND, MANY LOANS APPARENTLY ARE MADE TO BORROWERS WHO CAN GET CREDIT FROM OTHER SOURCES AT REASONABLE RATES AND TERMS.

AT THIS POINT, I WOULD LIKE TO BRIEFLY DISCUSS THESE PROBLEMS AND OUR RECOMMENDATIONS FOR IMPROVING THE PROGRAM.

MINIMUM LOSS ELIGIBILITY
REQUIREMENT IS INEQUITABLE

FmHA HAS ADOPTED A MINIMUM LOSS ELIGIBILITY REQUIREMENT TO RESTRICT LOANS TO LOSSES ABOVE LOSSES RESULTING FROM NORMAL VARIATIONS IN ANNUAL CROP YIELDS. WE BELIEVE THIS REQUIREMENT, AS CURRENTLY ADMINISTERED BY FmHA, CAN TREAT FARMERS INEQUITABLY.

TO BE ELIGIBLE FOR AN FmHA DISASTER ASSISTANCE LOAN FOR A PRODUCTION LOSS DURING FISCAL YEAR 1978, THE APPLICANT MUST HAVE SUFFERED AN UNINSURED AND/OR OTHERWISE UNCOMPENSABLE LOSS OF AT LEAST 20 PERCENT OF A NORMAL YEAR'S GROSS INCOME IN A BASIC ENTERPRISE AS A DIRECT RESULT OF A DESIGNATED DISASTER. FmHA DEFINED A BASIC ENTERPRISE AS A SINGLE ENTERPRISE COMPRISING AT LEAST 25 PERCENT OF FARM INCOME. EXAMPLES OF SINGLE ENTERPRISES USED BY FmHA ARE ALL CASH FIELD CROPS, ALL CASH FRUIT CROPS, BEEF OPERATIONS, AND DAIRY OPERATIONS.

1/DIFFICULTIES IN COORDINATING FARM ASSISTANCE PROGRAMS OPERATED BY FARMERS HOME ADMINISTRATION AND SMALL BUSINESS ADMINISTRATION (CED-78-118, May 25, 1978)

UNDER THIS PROCEDURE, AN ELIGIBLE FARMER MUST SUSTAIN AT LEAST A 20-PERCENT LOSS IN HIS ALL CASH FIELD CROPS, ASSUMING THE NORMAL INCOME FROM SUCH CASH CROPS IS AS LEAST 25 PERCENT OF THE NORMAL YEAR'S TOTAL GROSS FARM INCOME.

UNDER THIS MINIMUM LOSS CRITERIA, A VERY SMALL DIFFERENCE IN GROSS FARM INCOME COULD DETERMINE A FARMER'S ELIGIBILITY. FOR EXAMPLE, A FARMER WHO SUFFERS A LOSS OF 20 PERCENT ON HIS CASH CROPS, WHICH COMPRISE 25 PERCENT OF HIS GROSS FARM INCOME, WOULD HAVE A MINIMUM LOSS OF 5 PERCENT OF HIS TOTAL GROSS FARM INCOME (20 PERCENT X 25 PERCENT). ON THE OTHER HAND, A FARMER WHO SUFFERED A 19 PERCENT LOSS ON HIS CASH CROPS WOULD HAVE A MINIMUM LOSS OF ONLY 4.75 PERCENT OF HIS TOTAL GROSS FARM INCOME. THIS ONE-FOURTH OF 1 PERCENT DIFFERENCE, ON A GROSS FARM INCOME OF \$100,000, MEANS THAT A DIFFERENCE OF AS LITTLE AS \$250 IN GROSS INCOME WOULD DETERMINE A FARMER'S ELIGIBILITY. IN OUR MAY 1978 REPORT, WE RECOMMENDED THAT FmHA PROPOSE LEGISLATION TO THE CONGRESS WHICH WOULD ALLOW FmHA TO ADOPT AN APPROACH THAT WOULD (1) APPLY A MINIMUM LOSS PERCENTAGE AGAINST THE ENTIRE FARM INCOME DERIVED FROM SEVERAL DIFFERENT CROPS OR OPERATIONS RATHER THAN ONLY ON A PORTION OF IT AND (2) DEDUCT THIS AMOUNT FROM THE TOTAL FARM LOSS IN CALCULATING THE MAXIMUM AMOUNT THAT CAN BE BORROWED.

IN RESPONSE TO OUR REPORT, FmHA DECIDED TO REVISE ITS PROCEDURES RATHER THAN SEEK A LEGISLATIVE AMENDMENT. UNDER ITS NEW PROCEDURES, FmHA:

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- CHANGED ITS DEFINITION OF A "BASIC PART OF A FARM OPERATION" IN WHICH A LOSS MUST BE SUFFERED FROM AN ENTERPRISE CONSTITUTING 25 PERCENT OF GROSS FARM INCOME TO ONE WHICH NORMALLY GENERATES SUFFICIENT INCOME TO BE CONSIDERED ESSENTIAL TO THE OPERATION'S SUCCESS;
 - REVISED THE LOAN AMOUNT COMPUTATION PROCEDURES SO THAT ELIGIBLE BORROWERS NO LONGER HAVE TO OFFSET ENTERPRISES WHICH HAVE LOSSES WITH THOSE WHICH HAVE ABOVE NORMAL GROSS INCOMES; AND
 - REDEFINED THE TERM "SINGLE ENTERPRISE" TO MEAN EACH INDIVIDUAL CROP (E.G., CORN, WHEAT) INSTEAD OF CATEGORIES OF ENTERPRISES (E.G., ALL CASH FIELD CROPS).

WE BELIEVE, HOWEVER, THESE CHANGES WILL NOT CORRECT THE INEQUITIES THAT EXIST. FmHA IS ALSO PLANNING TO CHANGE ITS PROCEDURES SO THAT 10 PERCENT OF THE PRODUCTION LOSS WILL BE DEDUCTED FROM THE LOAN AMOUNT, I.E., ELIGIBLE APPLICANTS CAN OBTAIN A LOAN FOR 90 PERCENT OF THEIR LOSSES.

THE FOLLOWING HYPOTHETICAL EXAMPLES SERVE TO ILLUSTRATE THE INEQUITIES THAT STILL EXIST IN FmHA'S NEW APPROACH. UNDER THE REVISED PROCEDURE, A FARMER WHO LOSES 20 PERCENT OF HIS PRODUCTION IN ONE AREA OF OPERATION WILL BE ELIGIBLE FOR A LOAN COVERING 90 PERCENT OF THE LOSS; A FARMER WHO LOSES 19 PERCENT, HOWEVER, WILL NOT BE ELIGIBLE FOR A LOAN. TO FURTHER COMPOUND THE PROBLEM, THE FARMER WHO LOSES 20 PERCENT IN ONE

AREA OF OPERATION, AND THEREFORE QUALIFIES FOR ASSISTANCE, MIGHT ACTUALLY EXPERIENCE A COMPENSATING GAIN IN ANOTHER AREA. IN CONTRAST, THE FARMER WHO LOSES 19 PERCENT, AND THUS RECEIVES NO ASSISTANCE, MIGHT NOT HAVE A COMPENSATING GAIN.

THESE PROBLEMS WOULD NOT OCCUR IF OUR RECOMMENDATION WERE IMPLEMENTED BECAUSE LOANS WOULD BE MADE ONLY FOR LOSSES WHICH EXCEED THE "DEDUCTIBLE" AND ONLY IF ALL FARM INCOME IS TAKEN INTO ACCOUNT.

OUR AUGUST 1979 REPORT POINTED OUT THESE PROBLEMS WITH FmHA'S NEW PROCEDURE. IN COMMENTING ON THAT REPORT, FmHA OFFICIALS DID NOT FULLY SUPPORT OUR RECOMMENDATION FOR REVISING THE MINIMUM LOSS ELIGIBILITY CRITERIA BECAUSE THEY BELIEVED MORE TIME-CONSUMING CALCULATIONS WOULD BE REQUIRED. THEY DID RECOGNIZE, HOWEVER, THAT THEIR NEW PROCEDURES WOULD NOT COMPLETELY RESOLVE THE PROBLEMS WE NOTED.

WE BELIEVE OUR RECOMMENDATION WILL NOT DELAY LOAN PROCESSING TO ANY SIGNIFICANT DEGREE. FmHA ALREADY REQUIRES ITS APPLICANTS TO PROVIDE MOST OF THE INFORMATION NEEDED TO CARRY OUT OUR RECOMMENDED APPROACH.

IN VIEW OF THE AGENCY'S RELUCTANCE TO PROPOSE LEGISLATION TO CHANGE THE MINIMUM LOSS ELIGIBILITY CRITERIA, WE PROPOSE THAT THE CONGRESS STRENGTHEN THE CRITERIA IN THE MANNER DESCRIBED IN OUR TWO REPORTS. IN ESSENCE, THIS WOULD EQUITABLY RESTRICT PRODUCTION LOSS LOANS TO THE AMOUNT OF LOSS THAT EXCEEDS PRODUCTION VARIATIONS NORMALLY EXPECTED IN A FARM OPERATION.

FmHA'S CREDIT ELSEWHERE
TEST IS NOT UNIFORMLY APPLIED

THE CONSOLIDATED FARM AND RURAL DEVELOPMENT ACT LIMITS ELIGIBILITY FOR FmHA PRODUCTION LOSS LOANS TO FARMERS UNABLE TO OBTAIN CREDIT FROM OTHER SOURCES AT REASONABLE RATES AND TERMS. THIS LIMITATION IS KNOWN AS THE "CREDIT ELSEWHERE" TEST. DESPITE THIS REQUIREMENT, MANY OF THE LOANS WE REVIEWED WERE MADE TO FARMERS WHO COULD HAVE OBTAINED CREDIT ELSEWHERE. I HAVE APPENDED TO THIS STATEMENT EIGHT OF THE MORE OBVIOUS EXAMPLES IDENTIFIED DURING OUR RECENT REVIEW OF FmHA LOAN FILES.

WE FOUND FmHA'S CREDIT ELSEWHERE TEST WAS WIDELY IGNORED OR RECEIVED ONLY CURSORY ATTENTION. IN ONE STATE, FOR EXAMPLE, COUNTY AND DISTRICT FmHA OFFICIALS INTERPRETED INSTRUCTIONS TO MEAN THAT THE CREDIT ELSEWHERE TEST WOULD NOT BE USED IN THE PRODUCTION LOSS LOAN PROGRAM. A COUNTY SUPERVISOR TOLD US THAT THE STATE OFFICE STRONGLY ENCOURAGED COUNTY SUPERVISORS TO MAKE LOANS LIBERALLY AND TO RELAX THE CREDIT ELSEWHERE TEST. IN ONE COUNTY, BANKING OFFICIALS ADMITTED TO READILY SUPPLYING LOAN REJECTION LETTERS TO ASSIST CUSTOMERS IN GETTING LOW INTEREST FmHA PRODUCTION LOSS LOANS.

IN EACH OF THE FIVE STATES IN OUR REVIEW, WE ASKED LOCAL LENDERS TO REVIEW FINANCIAL PROFILE STATISTICS GATHERED ON FmHA BORROWERS TO DETERMINE HOW MANY OF THE LOANS THE LENDERS COULD HAVE MADE. ALTHOUGH THE PROPORTIONS VARIED FROM STATE TO STATE, THE LENDERS GENERALLY AGREED THAT THEY COULD HAVE MADE LOANS TO NUMEROUS FmHA LOAN RECIPIENTS. FOR INSTANCE, AN

OFFICIAL FROM A LOCAL LENDING INSTITUTION IN ONE STATE REVIEWED THE STATISTICS WE GATHERED ON 31 BORROWERS FROM HIS AREA. BASED ON THIS REVIEW, HE ESTIMATED THAT HIS INSTITUTION COULD HAVE MADE 11 OF THE LOANS AMOUNTING TO 55 PERCENT OF THE TOTAL \$500,000 LOANED BY FmHA. IN ANOTHER STATE, AN ESTIMATED 29 PERCENT OF FmHA'S LOAN DOLLARS IN OUR SAMPLE WENT TO INDIVIDUALS WHO COULD OBTAIN CREDIT ELSEWHERE. IN STILL ANOTHER STATE, AN ESTIMATED 21 PERCENT OF THE SAMPLED BORROWERS COULD GET CREDIT ELSEWHERE.

AN EFFECTIVE TEST FOR CREDIT ELSEWHERE IS IMPORTANT BECAUSE IT CAN (1) CONFINE FEDERAL LENDING TO THOSE BORROWERS MOST IN NEED; (2) PREVENT FmHA FROM COMPETING WITH THE PRIVATE SECTOR; AND (3) REDUCE THE NUMBER OF LOW INTEREST LOANS MADE, THUS SAVING THE GOVERNMENT SUBSTANTIAL INTEREST SUBSIDY COSTS.

IN OUR AUGUST 1979 REPORT, WE RECOMMENDED THAT THE FmHA ADMINISTRATOR CLARIFY THE TEST FOR CREDIT ELSEWHERE FOR ALL COUNTY SUPERVISORS AND REVIEW ALL PRODUCTION LOSS LOANS MADE IN FISCAL YEAR 1978 FOR POSSIBLE REFERRAL TO OTHER CREDIT SOURCES. FmHA OFFICIALS ACKNOWLEDGED THE PROBLEMS WE NOTED AND AGREED WITH OUR RECOMMENDATION FOR CLARIFYING THE CREDIT ELSEWHERE TEST. PLANS ARE UNDERWAY TO TIGHTEN UP THIS CRITERIA. FmHA, HOWEVER, HAS NOT INDICATED ITS PLANS TO REVIEW 1978 LOANS.

THIS CONCLUDES OUR PREPARED STATEMENT, MR. CHAIRMAN.
WE WILL BE PLEASED TO RESPOND TO ANY QUESTIONS.

EXAMPLES OF BORROWERS WHO
RECEIVED FmHA PRODUCTION LOSS LOANS
DURING FY 1978 BUT COULD HAVE
OBTAINED CREDIT ELSEWHERE

THE FOLLOWING ARE SOME EXAMPLES OF FmHA BORROWERS WHO WE BELIEVE COULD OBTAIN CREDIT AT REASONABLE RATES AND TERMS FROM OTHER SOURCES. EACH OF THESE EXAMPLES WAS OBTAINED FROM OUR SYSTEMATIC SAMPLE OF 260 LOAN FILES IN 5 STATES. THE CALCULATION OF THE GOVERNMENT'S SUBSIDY IS BASED ON FmHA'S ESTIMATED 8.3 PERCENT COST OF BORROWING IN FISCAL YEAR 1978. THE CURRENT RATE HAS RISEN TO 9.96 PERCENT.

- A BUSINESSMAN/ATTORNEY WHO EARNED MORE THAN \$84,000 IN ANNUAL NONFARM INCOME OBTAINED AN FmHA PRODUCTION LOSS LOAN OF \$58,000 FOR 7 YEARS. THE BORROWER HAS A NET WORTH OF \$983,000, INCLUDING EQUITY IN 2,300 ACRES OF LAND. IN ADDITION TO REAL ESTATE AND OTHER LONG-TERM ASSETS, THE BORROWER HAD CASH ON HAND, BONDS, CASH VALUE ON LIFE INSURANCE POLICIES, AND OTHER CURRENT ASSETS OF \$389,000. LOAN FUNDS WERE DISBURSED DIRECTLY TO THE BORROWER WITH NO VERIFICATION OF USE BY FmHA. THE GOVERNMENT'S SUBSIDY OVER THE LIFE OF THE LOAN AMOUNTS TO \$14,000.
- A FARMER WITH \$367,900 IN GROSS INCOME FROM FARMING RECEIVED A \$123,400 PRODUCTION LOSS LOAN FOR 5 YEARS. HIS NET WORTH WAS \$2,600,000. HE HAD CURRENT ASSETS OF \$277,000, OF WHICH \$275,000 WAS IN CASH AND \$2,000 WAS IN ACCOUNTS RECEIVABLE. THE FARMER HAD \$1 MILLION IN NONFARM REAL ESTATE AND \$2,500,000 IN CORPORATE INTERESTS. IN ADDITION TO THE FARMING OPERATIONS, THE BORROWER WAS PART OWNER AND OPERATOR OF A GRAIN ELEVATOR. THE GOVERNMENT'S SUBSIDY OVER THE LIFE OF THE LOAN AMOUNTS TO \$21,000.
- A FARMER AND BUSINESS OPERATOR APPLIED FOR AN FmHA PRODUCTION LOSS LOAN AFTER SUFFERING CROP LOSSES IN THE DROUGHT. A \$56,000 PRODUCTION LOSS LOAN WAS GRANTED FOR 7 YEARS AT 3-PERCENT INTEREST. THE FARM AND BUSINESS PROVIDED THE OPERATOR WITH A

\$276,000 GROSS ANNUAL INCOME AND A \$762,000 NET WORTH. THE GOVERNMENT'S SUBSIDY OVER THE LIFE OF THE LOAN AMOUNTS TO \$13,000.

- A FARMER WITH A \$277,000 GROSS ANNUAL INCOME AND A \$529,000 NET WORTH RECEIVED A \$64,000 PRODUCTION LOSS LOAN FOR 7 YEARS AT 3 PERCENT FROM FmHA DUE TO A DROUGHT. THE GOVERNMENT'S SUBSIDY OVER THE LIFE OF THE LOAN AMOUNTS TO \$15,000. FmHA PERSONNEL BELIEVE THE FARMER USED THE LOAN TO PURCHASE A CERTIFICATE OF DEPOSIT YIELDING A HIGHER INTEREST RATE.
- ANOTHER BORROWER WHO HAD A NET WORTH OF \$873,000 OBTAINED A \$98,000 FmHA PRODUCTION LOSS LOAN WITH A 7-YEAR REPAYMENT PERIOD. OF THE LOAN AMOUNT, \$42,000 WAS USED FOR DEBT REDUCTION AND \$56,000 WAS DISBURSED TO THE BORROWER FOR WORKING CAPITAL. THIS BORROWER OWNED 1,200 ACRES OF LAND VALUED AT \$840,000, WITH AN OUTSTANDING MORTGAGE OF ONLY \$25,000. THE BORROWER HAD TOTAL ASSETS OF \$946,000 WITH TOTAL LIABILITIES OF ONLY \$73,000. THE GOVERNMENT'S SUBSIDY OVER THE LIFE OF THE LOAN AMOUNTS TO \$23,000.
- A CORPORATION THAT WAS NOT PRIMARILY ENGAGED IN FARMING OBTAINED AN FmHA PRODUCTION LOSS FARM LOAN OF \$90,000 FOR 7 YEARS. IN FACT, THE BUSINESS OF FARMING WAS NOT MENTIONED IN THE CORPORATION'S CHARTER. THE FOUR OWNERS OF THE CORPORATION HAVE A COMBINED NET WORTH OF ABOUT \$3 MILLION. IN ADDITION TO THE INDIVIDUALS' INTEREST IN THE CORPORATION, REAL ESTATE, AND OTHER LONG-TERM ASSETS, THEY HAD CASH ON HAND AND MARKETABLE STOCKS OF MORE THAN \$3.7 MILLION. THEIR ASSETS INCLUDED A SUBSTANTIAL OWNERSHIP IN TWO RURAL BANKS. THE GOVERNMENT'S SUBSIDY OVER THE LIFE OF THE LOAN AMOUNTS TO \$21,000.
- FmHA MADE A \$60,000 PRODUCTION LOSS LOAN FOR 20 YEARS TO A FARMER WITH A NET WORTH OF MORE THAN \$266,000 AND NO CURRENT LIABILITIES. LOCAL BANKING OFFICIALS STATED THAT THE BORROWER HAD INVESTED THE LOAN PROCEEDS IN CERTIFICATES OF DEPOSIT. THE GOVERNMENT'S SUBSIDY OVER THE LIFE OF THE LOAN AMOUNTS TO \$44,000.
- A FARMER WITH EQUITY OF \$315,700 IN HIS FARM AND \$415,800 IN DISASTER YEAR INCOME, RECEIVED A 7-YEAR

\$70,200 FmHA PRODUCTION LOSS LOAN. THE FARMER'S CURRENT ASSETS TOTALED \$822,100 WHICH CONSISTED OF \$8,900 IN CASH, \$725,000, IN BONDS, \$6,000 IN FEED, AND \$82,300 IN CROPS HELD FOR SALE. THE GOVERNMENT'S SUBSIDY OVER THE LIFE OF THE LOAN AMOUNTS TO \$16,000.